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SENSITIVE

STATE FOR EAP/MTS, EAP/EP, EEB/IFD/OMA  
STATE PASS EXIM, OPIC, AND USTR  
STATE PASS USAID FOR AA/ANE, AA/EGAT, DAA/ANE  
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SUBJECT: Senators Tell Foreign Investors to "Get Out"

**¶11. (U)** Summary: A Philippine Senate committee grilled representatives of foreign chambers of commerce, including the AmCham on June 6 regarding a letter the chambers had sent to Philippine President Arroyo opposing a legislative initiative. Though the business leaders were poorly treated by the Senators, they held their own and seem to have won the sympathy and support of interested observers and the press. Though the spectacle served as yet another warning of the risks of investing in the Philippines, it may have backfired, solidifying the position of the chambers as champions of reform. End Summary.

**¶12. (U)** The Joint Foreign Chambers of the Philippines, an informal grouping of major foreign chambers of commerce here, including AmCham, were raked over the coals by Philippine Senators. Key Senators were upset with a letter the chamber group sent to Philippine President Arroyo opposing proposed amendments to the Electric Power Industry Reform Act (EPIRA).

**¶13. (U)** Legislators have proposed amending the Act to speed up the implementation of open access (i.e., the ability of large consumers to negotiate the purchase of electric power directly from the producers, rather than buying it from distributors at fixed rates). The original Act allows for open access only once the government has sold off at least 70% of its power generation holdings. The proposed amendments would lower the requirement to 50%. In fact, the government has now reached 49% and expects to meet the 70% goal this year. Members of the chambers oppose the amendments as they believe it important to the long-term health of the sector (and, ultimately, to lowering prices) that the government share be minimized. The chambers are also concerned that amendments could be added changing unilaterally the terms of the contracts of the private power producers, some of which are members of the chambers.

**¶14. (U)** The Joint Foreign Chambers has been active for some years lobbying the government on a wide variety of issues, ranging from competitiveness reforms to promotion of public investment in infrastructure and education. It frequently interfaces with the government via letters to the President or other executive branch officials.

**¶15. (U)** Senator Juan Ponce Enrile led the charge in response to the letter. In a speech to the Senate he decried the "intervention" of foreigners into the policymaking of the government, the addressing to the executive branch of a letter regarding an issue currently before the Congress, and a suggestion in the letter that some legislators had made "unwarranted accusations against bedrock principles accepted in progressive countries around the world." Enrile labeled foreign investors "carpetbaggers, predators, and buccaneers" and demanded that they appear in the Senate to explain themselves. Chair of the Senate Energy Committee Senator Miriam

Defensor Santiago invited the Chambers to appear before the committee on June 6.

¶16. (U) The spectacle of the foreign businessmen, led by the French head of the European Chamber, Hubert D'Aboville, being browbeaten by Senators Enrile, Santiago and Joker Arroyo was televised live nationwide. Described by some observers as "hapless," D'Aboville attempted several times to read a prepared statement, but was not allowed to do so. Instead, he and the other Chamber representatives (including an AmCham representative) were berated, interrupted, and heckled by the Senators. At one point Enrile, seemingly enraged, shouted, "You wanted to make a profit. Because you are forcing the government to sell [its generation and transmission assets] for a song. My goodness, get out of this country if you can't live with us. You're guests in this country."

¶17. (U) Local Semiconductor Industry representatives present at the Senate hearing came to the rescue of the chambers, stating that they also opposed the amendment of the law, as they believed amendment would delay, rather than promote, the reduction of electricity prices in the country.

¶18. (U) Press reporting of the hearing has generally been critical of the conduct of the Senators. Other Senators have suggested to the press that they would not have treated foreign investors in such a manner. Enrile's own repetitive calling of the Chamber representatives "guests" may have backfired on him, as Filipino pride in welcoming guests contrasts sharply with Enrile's actions. Some editorialists have suggested that the hearing may have a chilling effect on foreign investment.

Ulterior Motives?

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¶19. (SBU) A few commentators have gone so far as to suggest that there may have been ulterior motives behind the show at the Senate. The Foreign Chambers have been active for some years on a variety of sometimes controversial economic policy issues. Some analysts suggest that the Chambers' anti-smuggling efforts may have incited Enrile's reaction since representatives of the Foreign Chambers last month discussed smuggling with Enrile's son in law, who runs an auto import operation operating in Cagayan Special Economic Zone and Free Port and is suspected of involvement in smuggling.

Comment: Nationalism vs. Hospitality

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¶10. (SBU) The print press has been critical of the actions of the Senators and the story had no legs on television, where it was carried only on Friday and did not elicit much commentary. Though appeals to nationalism are often effective for Philippine politicians, the perception that the Senators were rude and treated their foreign guests poorly may have helped counterbalance nationalist sentiment in this case. As for the energy act amendments, Congress adjourned on June 11 without passing them. The Joint Foreign Chambers are an important ally of the Embassy in pressing for key economic reforms here. This ordeal may actually have strengthened their credibility and visibility as a force for reform.

KENNEY